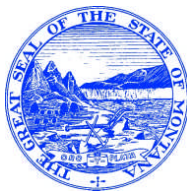


LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Angie Grove

TO: Legislative Audit Committee Members
cc: Janet R. Kelly, Director, Department of Administration
Dick Clark, CIO, Information Technology Services Division
FROM: Angie Grove, Deputy Legislative Auditor, Performance Audits
DATE: July 2007
RE: Performance Audit Follow-up: State Use of Cellular Devices
Department of Administration (orig. 05SP-30)
ATTACHMENTS: DOA Corrective Action Plan Matrix
Report Summary – State Use of Cellular Devices

INTRODUCTION

In March 2006 we presented our performance audit of State Use of Cellular Devices. The audit made two recommendations to the Department of Administration (DOA). In June of 2007, we began gathering information from the department on their progress in implementing the recommendations. This memo summarizes the results of our follow-up work in addition to presenting background information on the program.

Overview

The Department of Administration has implemented both audit recommendations. They have established a statewide comprehensive cellular use policy as well as assisted agencies in receiving credits for past misbilling of the federal taxes.

BACKGROUND

Montana began utilizing cell phone technology in 1991 with a total of six cell phones in state agencies. By 1995, the state was utilizing 335 cell phones. Today, state agencies have almost 4,500 cellular devices with an associated cost of approximately \$1.7 million a year. DOA's Information Technology Services Division (ITSD), Procurement Bureau has established term contracts with two cellular service providers, Alltel and Verizon Wireless. These contracts are non-exclusive, which means state agencies can choose to contract with a cellular provider other than Alltel or Verizon Wireless.

FOLLOW-UP AUDIT FINDINGS

The performance audit report included two recommendations to the department. The following summarizes information relating to follow-up audit work and the implementation status of recommendation.

Recommendation #1

We recommend the Department of Administration establish a comprehensive cellular device policy that includes:

- A. Assignment criteria and justification**
- B. Statement review**
- C. Security**
- D. Reimbursement for personal use**

Implementation Status – Implemented

The department established a comprehensive cellular device policy that provides guidelines for all areas addressed in the recommendation. The policy sets minimum standards for the deployment and acceptable use of cellular devices within state government. Agencies that wish to have more restrictive standards can adopt supplemental department-specific policy. The policy was formally adopted on July 21, 2006, and all state agencies received notice of its adoption. The policy is also posted on the state's website. (http://itsd.mt.gov/policy/policies/Cellular_Device_Policy.pdf)

Recommendation #2

We recommend the Department of Administration work with state agency personnel to recover monetary losses for amounts overcharged due to misbilling of federal excise tax and in-state roaming.

Implementation Status – Implemented

The department worked with the cellular phone companies to recover monetary losses for agencies misbilled for the three percent federal excise tax. Monetary losses were recovered back two and half years. In addition to recovering monetary losses, the department worked with the cellular companies to identify the reasons for improper billing on state contracts. DOA feels confident that the proper checks and balances are in place as to assure the misbilling of federal excise tax will not occur again. Credits were given to twelve state agencies, ranging from a low of \$133 to a high of \$4,588. The total credits issued to the State of Montana for misbilling of the federal excise tax were \$8, 975.

DOA determined the misbilling charges for in-state roaming were insignificant and chose not to recover the monetary losses. However, as with the federal excise tax, DOA worked with the cellular companies to identify the reason for misbilling of in-state roaming to assure the problem no longer existed. Both cellular companies under contract with the state have implemented changes to the State of Montana plans in their billing systems. They have introduced software changes that eliminate the billing of roaming charges on state agency accounts, thus eliminating the need to manually remove or credit for these calls.

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Audit #05S-30 State Use Of Cellular Devices
Final Report: July 25, 2006

Department of Administration
Information Technology Services Division

1 of 2

Audit Report & Rec #	Recommendation	Division Stance	CAP – Corrective Action Plan	Person responsible for CAP	Target Date	Review Findings/Date
LAD # 05S-30 Rec #1	<p>We recommend the Department of Administration establish a comprehensive cellular device policy that includes:</p> <ul style="list-style-type: none"> A. Assignment criteria and justification B. Statement Review C. Security D. Reimbursement for personal use 	Concur	<p>1. Establish Comprehensive Policy: The department will establish a comprehensive cellular device policy that provides guidelines for all recommended subject areas and sets the minimum standards for the deployment and acceptable use of cellular devices within State government. Agencies who desire more restrictive standards can adopt a supplemental department-specific policy.</p>	Dick Clark	<p>Policy Drafted. Currently in review and approval process.</p> <p>Target adoption date April 15, 2006</p> <p>Completed Final Policy issued July 21, 2006</p>	<p>The department has drafted a comprehensive cellular device policy that provides guidelines for all recommended subject areas and sets the minimum standards for the deployment and acceptable use of cellular devices within State government. The policy will be reviewed by ITMC and shared with any agencies.</p> <p>A comprehensive cellular device policy was reviewed by ITMC and shared with all agencies. The final policy was issued July 21, 2006.</p>
LAD # 05S-30 Rec #2	We recommend the Department of Administration work with State agency personnel to recover monetary losses for the amounts overcharged due to misbilling of federal excise tax and in-state roaming.	Concur	<p>1. Recover Monetary Losses: The department will work with the State agencies involved and the cell phone companies to insure that appropriate credits are made to the accounts that were overcharged due to the misbilling of in-state roaming charges.</p> <p>2. Correct Misbilling of Federal Excise Tax: The department will work with the particular cell phone company</p>	<p>Dick Clark</p> <p>Dick Clark</p>	<p>Completed February 1, 2006</p> <p>Completed February 1, 2006</p>	<p>Credits have been issued to accounts identified in the audit process where in-state roaming charges were inappropriately billed.</p> <p>The department has worked with the particular cell phone company involved to insure that the billing system</p>



Legislative Audit Division

Performance Audit Summary

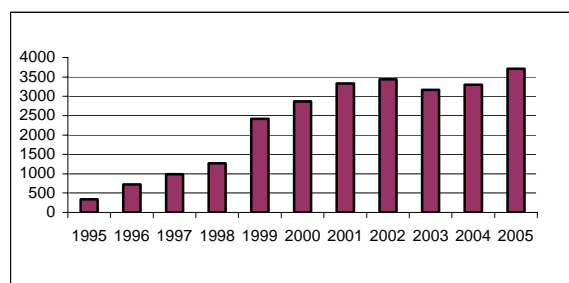
State Use of Cellular Devices

January 2006

Introduction

Based on legislative interest and direction from the Legislative Auditor, a limited scope performance audit was initiated to examine the state's use of cellular communication devices. According to the Department of Administration (DOA), Montana began utilizing cell phone technology in 1991 with a total of six cell phones in state agencies. By 1995, the state was utilizing 335 cell phones. Today, ten years later, state agencies have almost 3,800 cell phones with an associated cost of approximately \$1.2 million a year.

Average Number of Cell Phones in the Past Ten Years



State Cellular Plans

DOA's Information Technology Services Division (ITSD), Procurement Bureau has established term contracts with two cellular service providers, Cellular One and Verizon Wireless. These contracts are non-exclusive, which means state agencies can choose to contract with a cellular provider other than Cellular One or Verizon Wireless. Audit work showed that 8 of 35 state agencies or programs we reviewed use a cellular provider besides or in addition to those in a term contract with the state. Both Verizon and Cellular One offer low, normal and high usage minute plans. Verizon offers a Blackberry plan as well.

Current Policy

State statute charges the Department of Administration (DOA) with the development of information technology resources in a cost effective manner so as to be accountable to the Legislature and citizens of Montana. Part of DOA's charge is to establish and enforce information technology policies. In an effort to carry out these responsibilities, DOA has established Administrative Rules. These rules

state that DOA must approve the installation of all telecommunications systems and that the use of the state's telecommunications systems for essential personal business must be kept to a minimum. The personal use must not interfere with the conduct of state business. Essential personal long distance calls must be either collect, charged to a third party non-state number, or charged to a personal credit card.

This general telecommunication policy was established in 1987 as an effort to implement state law, which requires DOA to establish and enforce information technology policies. This policy was developed before the state began utilizing cellular devices of any type, therefore does not reflect relevant characteristics specific to cellular devices.

Agency Responsibility

Administrative Rules also state that all state agencies are individually responsible for enforcing rules related to telecommunication systems. Audit work showed that 8 of the 35 state agencies and programs we reviewed have an agency policy, which addresses cellular device use. DOA does not require agencies to establish policy specific to cellular devices, but neither does it provide any guidance to agencies on the matter. DOA's policy leaves the definition of efficient cellular device use up to individual agency personnel, which in effect, produces an array of policies, procedures and practices.

Efficiency of Plan Choice

There was a lack of criteria among agencies for selecting a monthly usage plan. Consequently, state cellular device users are not always on the most efficient plan available. Agencies do not formally select plans based solely on business needs. Most agencies stated they had either a written or unwritten procedure of managerial staff approving a cellular device and the associated plan.

Devices Not Being Used

Non-use of cellular devices is inefficient use and generates unnecessary costs. We estimate a minimum of 5 percent of cellular devices are not used and agencies continue paying monthly plan fees. The state of Montana pays anywhere from \$4,708 to \$15,066 a year for unused cell phones. Agencies may actively choose to incur monthly expenses for an unused device so as to have it

available in emergency situations. Other unused devices appear to be due to improper assignment.

Blackberry Technology

A Blackberry is a mini computer and cell phone in one device, commonly referred to as a personal digital assistant (PDA). These plans range from \$49.24 to \$58.24 per month for low to normal usage.

A Blackberry user can use the device to make or receive a call as well as access the state network and e-mail resources. Because Blackberry users have access to state information technology resources just as they would with a state owned computer, Information Technology Services (ITSD) Division charges a \$60 fee for initial setup of a Blackberry and a monthly server maintenance fee of \$13.00. These fees help pay for and maintain the client access licenses and the state's Blackberry server. Unlike cell phones, Blackberries have to be purchased for the contract price of \$329.99, at which point they become state property. If damaged, the state takes a loss on the property.

In the last four months the number of Blackberries within agencies increased by 64 new devices. With the popularity of new technology comes the increased risk that devices will be purchased without consideration of whether the functionality is a necessary and justified expense.

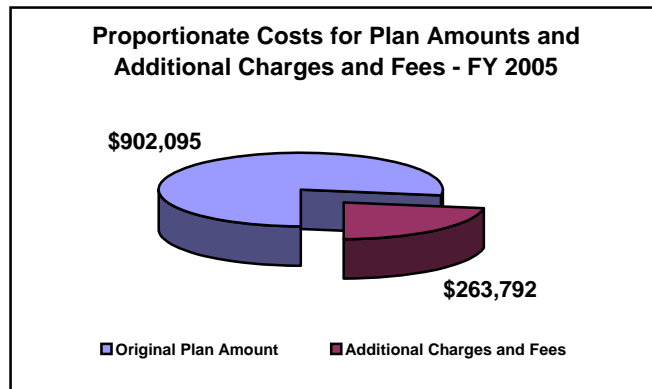
Overages or Overcharged?

The Montana Operations Manual speaks of internal controls with regard to fiduciary responsibilities. The manual states that the "approver of an invoice should ensure that services billed under the invoice were provided. As well, if a fraudulent or duplicate payment is found, every effort should be made to recover the funds and the breakdown in controls that allowed the improper payment to take place should be identified and eliminated." Information obtained during audit work shows most agencies do not review or check over monthly cellular or satellite statements. Some agency personnel authorized payment of the bill without question because it was not their position to question usage, while others did not have the time to review call details.

Agency personnel who approve and review statements said they did not review the call details of the bill on a regular basis, rather they looked for charges above the plan amount or anything that appeared to be abnormal. Interviews with agency personnel who did review statements thoroughly, expressed concerns over repeated billing errors from the providers.

General overages (minutes and roaming) comprised at least 30 percent of charges in our sample. Most often overages were due to roaming charges. Audit tests showed that both in-state and out of state roaming charges were incurred on monthly cellular statements. The state term contract exempts state agencies from being billed for in-state roaming charges. In-state roaming constituted 1 percent of

total overages. Out-of-state roaming was far higher at 10 percent.



Federal Excise Tax

The federal Mobile Telecommunications Sourcing Act requires the telecommunications industry to charge a 3 percent federal excise tax on cellular devices. This same federal law also exempts states that file as a governmental entity from paying this tax. In 54 percent of our agency sample, we found that statements are being issued with a 3 percent federal excise tax, and agencies are paying the tax. Interviews with agency personnel revealed that a majority of agencies are not aware that the state of Montana is exempt from paying federal excise tax. ITSD posts both cellular and satellite contracts on their procurement web page, and under contract terms, the State of Montana is exempt from federal excise tax. However, posting and communicating are not synonymous, as a majority of agencies are unaware of the state's exemption of federal excise tax. In the past fiscal year the state has been overcharged approximately \$11,300 due to the misbilling of the federal excise tax.

For a complete copy of the report (05SP-30) or for further information contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/css/audit/>